

**VILLAGE OF POSEN
PRESQUE ISLE COUNTY, MICHIGAN**

**Financial Statements and Supplemental Information
For the Year Ended December 31, 2004**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF POSEN	County PRESQUE ISLE
Audit Date 12/31/04	Opinion Date 8/25/05	Date Accountant Report Submitted to State: 10/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

J.W. KIELISZEWSKI, CPA, PC

Street Address

476 NORTH THIRD STREET

City

ROGERS CITY

State

MI

ZIP

49779

Accountant Signature

J.W. Kieliszewski

Date

10/25/05

VILLAGE OF POSEN

VILLAGE OFFICIALS

For the Fiscal Year Ended December 31, 2004

President	Edmond Lauzon
Clerk	Julia Litwinski
Treasurer	Marcia Urban
Trustees	Don Roznowski – pro tempore Dennis Chalupnizak Edwin Krajniak David Krentz Ronald Stoinski Laurie Wozniak

VILLAGE OF POSEN

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INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Posen
Presque Isle County, Michigan

I have audited the financial statements of the governmental activities, business-type activities, major funds and the remaining fund information of the ***Village of Posen, Presque Isle County, Michigan*** (the "Village"), as of and for the year ended December 31, 2004, which collectively comprise the Village's basis financial statements, as listed in the table of contents. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for opinion.

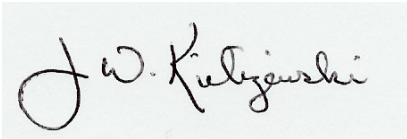
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, of those activities and fund and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

Village of Posen
Independent Auditor's Report
(Continued)

My audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The combining and individual fund statements and schedules described in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by me in the audit of the basic financial statements and, in my opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued a report dated August 25, 2005, on my consideration of internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, grants and contracts. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be reading conjunction with this report in assessing the results of my audit.

A handwritten signature in black ink, reading "J.W. Kieliszewski". The signature is written in a cursive style with a large, stylized "J" and "K".

J.W. Kieliszewski, CPA
August 25, 2005

VILLAGE OF POSEN

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village's annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year ended December 31, 2004. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Assets at December 31, 2004 totaled \$2,327,267 for all activities. Of the total, \$1,584,695 represents capital assets, net of depreciation.

Revenues derived from all activities were \$221,893 (\$127,744 from the water fund revenues and \$94,149 from governmental fund revenues). Overall expenditures for the Village's combined activities were \$156,960.

The Village has a special assessment revenue bond in the water fund with a balance due of \$475,000 as of December 31, 2004. The Village purchased capital assets in the water fund in the amount of \$87,877 during the fiscal year. Capital asset and debt activities are further disclosed in the Notes to Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: (1) Management's Discussion and Analysis (MD&A), (2) the basic financial statements, and (3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities. There were no business-type activities for the fiscal year ended December 31, 2004.

The remaining statements are fund financial statements, which focus on the individual parts of the Village in more detail.

The Notes to Financial Statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Village as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Village's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenditures, regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Village's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Village's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Village, additional factors such as tax base changes, facility conditions, and personnel changes may be considered.

Most of the activities of the Village are reported as governmental activities. These would include the operations recorded in the General Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds, not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Board may also create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Village has the following types of funds:

Governmental Funds

The Governmental Funds account for most of the Village's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund and Special Revenue Funds such as Major Street and Local Street. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a

detailed, short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

Proprietary Funds

Proprietary Funds account for the Village's enterprise fund. This fund reports services for which the Village charges customers for the service it provides. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business-type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The enterprise fund is the Water Fund. The Village is responsible for ensuring that the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Fund Net Assets; and a Statement of Cash Flows.

FUND ANALYSIS OF THE VILLAGE AS A WHOLE

Net Assets

The Village's net assets increased approximately \$63,795 during the year, to total \$1,480,557.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Governmental Activities

The Village continued to provide the same services to its residents: administrative, assessing, elections, Village hall maintenance, road maintenance, tax collection, ambulance service and fire protection.

Capital Asset Administration

At December 31, 2004, the Village had \$2,072,660 in capital assets, including the town hall, land, computers and other office equipment, and Water Fund assets.

CONTACTING VILLAGE MANAGEMENT

The financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the Village Clerk at (989) 766-2301.

VILLAGE OF POSEN
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<u>Assets</u>			
Cash	\$ 301,182	\$ 70,853	\$ 372,035
Other receivables	-	-	-
Internal receivables	3,349	367,188	370,537
Capital assets:			
Land	12,620	3,000	15,620
Infrastructure	361,654		361,654
Buildings	46,837	85,000	131,837
Equipment / furnishings	64,012	9,500	73,512
Water system	-	1,490,037	1,490,037
Less: accumulated depreciation	<u>(451,296)</u>	<u>(36,669)</u>	<u>(487,965)</u>
 Total Assets	 <u>338,358</u>	 <u>1,988,909</u>	 <u>2,327,267</u>
<u>Liabilities</u>			
Accounts payable	666	507	1,173
Accrued interest	-	-	-
Deferred revenue	-	367,188	367,188
Internal payables	57	3,292	3,349
Revenue bonds payable:			
Amount due within one year	-	5,000	5,000
Amount due more than one year	<u>-</u>	<u>470,000</u>	<u>470,000</u>
 Total Liabilities	 <u>723</u>	 <u>845,987</u>	 <u>846,710</u>
<u>Net Assets</u>			
Investment in capital assets net of related del	33,827	1,075,838	1,109,665
Unrestricted	<u>303,808</u>	<u>67,084</u>	<u>370,892</u>
 Total Net Assets	 <u>\$ 337,635</u>	 <u>\$ 1,142,922</u>	 <u>\$ 1,480,557</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF POSEN

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended December 31, 2004

<u>FUNCTIONS / PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>
		<u>Services</u>	<u>Grants /</u>	<u>Grants /</u>
			<u>Contributions</u>	<u>Contributions</u>
<u>Governmental Activities</u>				
Legislative	\$ 14,527	\$ -	\$ -	\$ -
General government	38,302	3,140	9,300	-
Public works / Transportation	<u>17,102</u>	<u>-</u>	<u>31,865</u>	<u>-</u>
Total Governmental Activities	69,931	3,140	41,165	-
<u>Business-type Activities</u>				
Water	<u>88,167</u>	<u>45,729</u>	<u>-</u>	<u>81,300</u>
Total Business-type Activities	<u>88,167</u>	<u>45,729</u>	<u>-</u>	<u>81,300</u>
Total Government	158,098	48,869	41,165	81,300
<u>General-Purpose Revenues</u>				
Property taxes				
State - shared revenues				
Unrestricted investment earnings				
Total General-Purpose Revenues				
Change in Net Assets				
Net Assets, beginning of year				
Net Asses, end of year				

<u>Net Revenue & Changes in Net Assets</u>		
Governmental	Business-type	
Activities	Activities	Total
\$ (14,527)	\$ -	\$ -
(25,862)	-	24,880
<u>14,763</u>	<u>-</u>	<u>63,730</u>
(25,626)	-	88,610
<u>-</u>	<u>38,862</u>	<u>254,058</u>
<u>-</u>	<u>38,862</u>	<u>254,058</u>
(25,626)	38,862	-
		342,668
16,320	-	16,320
26,388	-	26,388
<u>7,136</u>	<u>715</u>	<u>7,851</u>
49,844	715	50,559
24,218	39,577	63,795
<u>313,417</u>	<u>1,103,345</u>	<u>1,416,762</u>
<u>\$ 337,635</u>	<u>\$ 1,142,922</u>	<u>\$1,480,557</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF POSEN
GOVERNMENTAL FUNDS
BALANCE SHEET
December 31, 2004

	General	Major Streets	Other Nonmajor Governmental Funds	Total
<u>Assets</u>				
Cash	\$ 64,903	\$200,409	\$ 35,870	\$301,182
Due from other funds	3,292	57	-	3,349
Total Assets	<u>\$ 68,195</u>	<u>\$200,466</u>	<u>\$ 35,870</u>	<u>\$304,531</u>
<u>Liabilities</u>				
Accounts payable	\$ 648	\$ -	\$ 18	\$ 666
Due to other funds	-	-	57	57
Total Liabilities	<u>648</u>	<u>-</u>	<u>75</u>	<u>723</u>
<u>Fund Balances</u>				
Unreserved, reported in				
General Fund	67,547	-	-	67,547
Special Revenue Funds	-	200,466	35,795	236,261
Total Fund Balances	<u>67,547</u>	<u>200,466</u>	<u>35,795</u>	<u>303,808</u>
Total Liabilities and Fund Balance	<u>\$ 68,195</u>	<u>\$200,466</u>	<u>\$ 35,870</u>	<u>\$304,531</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF POSEN
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET ASSETS
December 31, 2004

Total Fund Balances - Governmental Funds	\$ 303,808
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
governmental funds balance sheet:

Capital assets, at cost	485,123
Accumulated depreciation	<u>(451,296)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 337,635</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF POSEN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND

BALANCES

For the Fiscal Year Ended December 31, 2004

	<u>General</u>	<u>Major Streets</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Revenues</u>				
Taxes	\$ 16,320	\$ -	\$ -	\$ 16,320
State grants	26,388	23,641	8,224	58,253
Interest and rentals	5,016	1,889	231	7,136
Other revenue	<u>12,440</u>	<u>-</u>	<u>-</u>	<u>12,440</u>
Total Revenues	60,164	25,530	8,455	94,149
<u>Expenditures</u>				
Legislative	14,527	-	-	14,527
General government	37,164	-	-	37,164
Public works / Transportation	<u>5,085</u>	<u>7,909</u>	<u>4,108</u>	<u>17,102</u>
Total Expenditures	<u>56,776</u>	<u>7,909</u>	<u>4,108</u>	<u>68,793</u>
Excess of Revenues over Expenditures	3,388	17,621	4,347	25,356
<u>Other Financing Sources (Uses)</u>				
Transfer from other funds	-	-	5,500	5,500
Transfer to other funds	<u>-</u>	<u>(5,500)</u>	<u>-</u>	<u>(5,500)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(5,500)</u>	<u>5,500</u>	<u>-</u>
Net Change in Fund Balance	3,388	12,121	9,847	25,356
Fund Balance, beginning of year	<u>64,159</u>	<u>188,345</u>	<u>25,948</u>	<u>278,452</u>
Fund Balance, end of year	<u>\$ 67,547</u>	<u>\$200,466</u>	<u>\$ 35,795</u>	<u>\$303,808</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF POSEN
GOVERNMENTAL FUNDS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
For the Fiscal Year Ended December 31, 2004

Net Change in Fund Balances - Governmental Funds \$ 25,356

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlays as
expenditures, while in the statement of activities, these
costs are allocated over their estimated useful lives as
depreciation:

Depreciation expense	(1,138)
Capital asset purchases capitalized	<u>-</u>

Change in Net Assets - Governmental Activities \$ 24,218

The accompanying notes are an integral part of these financial statements.

VILLAGE OF POSEN
PROPRIETARY FUND
STATEMENT OF NET ASSETS

December 31, 2004

	Business-type Activities Enterprise Funds
	Water Fund
<u>Assets</u>	
Current Assets	
Cash	\$ 70,853
Other receivables - current	28,000
Total Current Assets	<u>98,853</u>
Noncurrent Assets	
Other receivables - noncurrent	339,188
Capital assets	
Land / Building	88,000
Equipment	9,500
Water system	1,490,037
Accumulated depreciation	<u>(36,669)</u>
Total noncurrent assets	<u>1,890,056</u>
Total Assets	1,988,909
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	507
Internal payable	3,292
Bonds payable	<u>5,000</u>
Total Current Liabilities	8,799
Noncurrent Liabilities	
Deferred revenue	367,188
Bonds payable	<u>470,000</u>
Total Noncurrent Liabilities	837,188
<u>Net Assets</u>	
Invested in capital assets net of related debt	1,075,838
Unrestricted	<u>67,084</u>
Total Net Assets	<u><u>\$ 1,142,922</u></u>
Reconciliation of Government-wide Statement of Net Assets:	
Net assets of business-type activities	<u><u>\$ 1,142,922</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF POSEN
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
NET ASSETS
For the Fiscal Year Ended December 31, 2004

	Business-type Activities Enterprise Funds
	<u>Water Fund</u>
<u>Operating Revenues</u>	
Charges for services	\$ 45,729
Total Operating Revenues	45,729
<u>Operating Expenditures</u>	
Personal services	14,248
Contractual services	3,260
Repairs and maintenance	1,777
Utilities	4,474
Supplies and other	5,083
Depreciation	36,669
Total Operating Expenditures	65,511
Operating Income (Loss)	(19,782)
<u>Nonoperating Revenues (Expenditures)</u>	
Interest income	715
Federal grant	81,300
Interest expense	(22,656)
Total Nonoperating Revenues (Expenditures)	59,359
Change in Net Assets	39,577
Net Assets, beginning of year	1,103,345
Net Assets, end of year	\$ 1,142,922
Reconciliation:	
Net Change in Fund Balances - Proprietary Fund	\$ 39,577
Change in Net Assets of Business-type Activities	\$ 39,577

The accompanying notes are an integral part of these financial statements.

VILLAGE OF POSEN
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2004

	Business-type Activities Enterprise Funds
	Water Fund
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 45,729
Cash payments to suppliers for goods and services	(14,048)
Cash payments to employees for services	(14,248)
Net cash provided (used) by operating activities	17,433
<u>Cash Flows from Capital and Related Financing Activities</u>	
Acquisition of capital assets	(87,877)
Interest paid on bonds	(22,656)
Principal payments on bonds	(4,000)
Capital grants	81,300
Net Cash provided (used) by capital and related financing activities	(33,233)
<u>Cash Flows from Investing Activities</u>	
Interest on investments	715
Net increase (decrease) in cash	(15,085)
Cash, beginning of year	85,938
Cash, end of year	\$ 70,853
<u>Reconciliation of Income (Loss) from Operations to Net Cash Provided by Operating Activities</u>	
Income (loss) from operations	\$ (19,782)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities	
Depreciation	36,669
Change in assets and liabilities:	
Increase (decrease) in due to other funds	457
Increase (decrease) in accounts payable	89
Net cash provided (used) by operating activities	\$ 17,433

The accompanying notes are an integral part of the financial statements.

VILLAGE OF POSEN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Posen, Presque Isle County, Michigan (the “Village”) conform to generally accepted accounting principles (“GAAP”) as applicable to governments. The following is a summary of the most significant policies.

The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. On January 1, 2004, the Village adopted the new governmental reporting model and implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Under the provisions of this and other of the most current GASB statements, the focus of the Village’s financial statements has shifted from a fund focus to a government-wide focus.

THE REPORTING ENTITY

The Village was organized in 1877, and covers an area of approximately one square mile. The Village operates under an elected Council comprised of a Village President, Treasurer, Clerk and six Trustees, and provides services to its approximately 300 full-time residents.

The Village’s basic financial statements include the accounts of all Village operations. The criteria for including organizations as component units within the Village’s reporting entity, as set forth in §2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Village holds the corporate powers of the organization
- The Village appoints a voting majority of the organization’s board
- The Village is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Village; and/or
- There is fiscal dependency by the organization on the Village

Based on the aforementioned criteria, the Village has no component units.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial

statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. The Village has presented the following major proprietary fund:

Water Fund

Water Fund is used to account for the provision of water services to the residents of the Village. Activities of the fund include administration, operating and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

Village of Posen

Notes to Financial Statements

(Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available.

“Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The Village segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Major funds are generally those that represent ten percent (10%) or more of the respective fund type assets, liabilities, revenues or expenditures. All non-major funds are aggregated and presented in a single column.

Property taxes, franchise fees, licenses, state-shared revenue, charges for service and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the government receives cash.

The Village reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Financing is provided primarily by property taxes and state shared revenues. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the Village.

The Village reports the following fiduciary fund:

Trust and Agency Fund

The Tax Collection Fund is used to account for property taxes collected for the Village and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

ASSETS, LIABILITY AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

Investments

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. The Village defines capital assets as assets with an initial individual cost of \$500 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Land improvements	15-20 years
Vehicles	5-10 years
Furniture and other equipment	3-10 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the

face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent that portion of fund equity for which the Village has made tentative management plans that are subject to change. Undesignated fund balance indicates that portion of fund equity which is available for budgeting in future periods.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPARATIVE DATA

Comparative data for the prior year is not included in the Village's financial statements.

ACCOUNTING CHANGE

In June 1999, the GASB unanimously approved Statement No. 34, previously referenced in these Notes to Financial Statements. Effective January 1, 2004, the Village implemented the provisions of GASB 34. Changes to the Village's financial statements as a result of GASB 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements (Statement of Net Assets and Statements of Activities) prepared using full accrual accounting for all of the Village's activities.
- A change in the fund financial statements with a focus on major funds.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets previously reported in the General Fixed Asset Account Group.
- Liabilities in the governmental column of the Statement of Net Assets include bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by Village officials in compliance with GAAP and State law, specifically P.A. 621 of 1978 (the Uniform Budgetary Act), for the General and Special Revenue Funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Village to have its budget in place by January 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year; there was one significant amendment during the current fiscal year.

The Village follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year, commencing on January 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the Village Council.
5. All appropriations lapse at year-end.

Budgets are to be prepared on the same basis of accounting as the financial statements.

Excess of Expenditures Over Appropriations in Budgeted Funds

P.A. 621 of 1978, Section 18 (1), as amended (MCL 141.421 et seq.) provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the governmental funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

During the year ended December 31, 2004, the Village incurred no expenditures that exceeded the amount appropriated.

Fund Deficits

The Village had no accumulated fund balance deficits.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements, banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rates as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

All accounts are in the name of the Village and a specific fund. They are recorded in Village records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

The caption on the combined balance sheet relating to cash and cash equivalents and investments of \$372,035 represents deposits in two financial institutions located in Presque Isle County, Michigan in varying amounts.

Investments are categorized into three categories of credit risk:

- Category 1 – Insured or registered, or securities held by the Village or its agent in the Village's name;
- Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and
- Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At year end the carrying amount of the Village's deposits were classified as to risk as follows:

	<u>Insured</u>	<u>Uninsured</u>	<u>Total</u>
Citizens National Bank	\$100,000	\$136,279	\$236,279
Calcite Credit Union	<u>100,000</u>	<u>35,756</u>	<u>135,756</u>
	<u>\$200,000</u>	<u>\$172,035</u>	<u>\$372,035</u>

NOTE 4 – PROPERTY TAXES

December 1, 2003 Tax Levy

		Tax Roll Returned To County Uncollected 2004 Taxes	Collected 2004 Current Taxes, Fees & Other
<u>Current Property Taxes, Fees & Others</u>	<u>2003 Tax Roll</u>		
Village of Posen	<u>\$15,784</u>	<u>\$1,004</u>	<u>\$14,780</u>

2004 SEV \$4,329,009

2004 Taxable Value \$3,792,584

Taxes are levied on December 1 of each year and are payable by February 15 of the following year. Payments after the February 15 date are considered delinquent. The County of Presque Isle's Revolving Bond Fund purchases the delinquent real property taxes of the Village and payment is normally received by June 30. Delinquent personal property taxes are immaterial (less than \$20) and not accrued.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the current fiscal year follows:

	Balance 1/1/2004	Additions	Deletions	Balance 12/31/2004
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 12,620	\$ -	\$ -	\$ 12,620
Capital assets being depreciated				
Buildings	46,837	-	-	46,837
Equipment	64,012	-	-	64,012
Infrastructure	361,654	-	-	361,654
Total capital assets being depreciated	472,503	-	-	472,503
Less: accumulated depreciation	(450,158)	(1,138)	-	(451,296)
Total capital assets being depreciated, net	22,345	(1,138)	-	21,207
Governmental activities capital assets, net	<u>\$ 34,965</u>	<u>\$ (1,138)</u>	<u>\$ -</u>	<u>\$ 33,827</u>

(Continued on next page)

Village of Posen
Notes to Financial Statements
(Continued)

(Capital asset activity – continued from previous page)

	Balance 1/1/2004	Additions	Deletions	Balance 12/31/2004
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Capital assets being depreciated				
Building	85,000	9,500	-	94,500
Equipment	-	-	-	-
Infrastructure - Water system	1,411,660	78,377	-	1,490,037
Total capital assets being depreciated	1,496,660	87,877	-	1,584,537
Less: accumulated depreciation	-	(36,669)	-	(36,669)
Total capital assets being depreciated, net	1,496,660	51,208	-	1,547,868
Business-type activities capital assets, net	<u>\$1,499,660</u>	<u>\$ 51,208</u>	<u>\$ -</u>	<u>\$1,550,868</u>

Depreciation was charged to the Village's functions as follows:

Governmental activities	
General government	<u>\$ 1,138</u>
Total depreciation expense-governmental activities	<u>\$ 1,138</u>
Business-type activities	
Water	<u>\$ 36,669</u>
Total depreciation expense - business-type activities	<u>\$ 36,669</u>

NOTE 6 – LONG-TERM DEBT – WATER FUND

The following is a summary of the debt outstanding in the Village as of December 31, 2005:

<u>Bonds</u>	<u>Interest Rate</u>	<u>Original Debt</u>	<u>Principal Outstanding</u>
Water Fund-Series 2002	up to 5.25%	\$483,000	\$475,000

Village of Posen
Notes to Financial Statements
(Continued)

The annual principal requirements for the years ending December 31, 2004 through 2009 for all debts outstanding as of December 31, 2004 are as follows:

	<u>Amount</u>
7/1/05	\$ 5,000
7/1/06	5,000
7/1/07	5,000
7/1/08	5,000
7/1/09	5,000
Thereafter	<u>450,000</u>
Total	<u>\$475,000</u>

The following is a summary of long-term debt transactions of the Village for the year ended December 31, 2004:

Long-term debt at January 1, 2004	\$479,000
Principal payments	<u>5,000</u>
Balance December 31, 2004	<u>\$475,000</u>

NOTE 7 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefits provided to employees. The Village has purchased commercial insurance for property, personal liability, umbrella coverage, worker's compensation and medical benefits claims. Settled claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years (see GASB Codification §C-50.141).

NOTE 8 – PENSION PLAN

The Village provides pension benefits through a defined contribution plan covering to all full-time employees, which is administered through an underwriter. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. In accordance with these requirements, pension expense for this fiscal year was \$984.

The plan was established in lieu of participation with the Social Security system. The Village is responsible to make payments to the plan at a Council-approved percentage of payroll rates. The Village has no ownership or responsibility for benefit payments to its employees. Sole responsibility for benefit payments has been transferred to its underwriter in the plan.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

August 25, 2005

Honorable President and
Village Council Members
Village of Posen
Presque Isle County, Michigan

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Posen as of and for the year ended December 31, 2004, which collectively comprise the Village of Hillman's basic financial statements, and have issued my report thereon dated August 25, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Posen's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

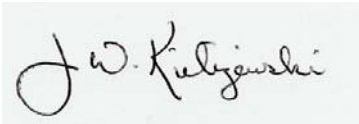
In planning and performing my audit, I considered the Village of Posen's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that the misstatement amounts would be material in relation to the financial statements being audited may occur and not

Village of Posen

Report on Compliance & Internal
Control-Financial Reporting
(Continued)

be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee and management of the Village Council and State of Michigan, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "J. W. Kuligowski". The signature is written in a cursive style with a large initial "J" and "W".

VILLAGE OF POSEN

REQUIRED SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2004

	<u>Special Revenue Fund</u>
	Local Street Fund
	<hr/>
<u>Assets</u>	
Cash	\$ 35,870
	<hr/>
Total Assets	\$ 35,870
	<hr/> <hr/>
<u>Liabilities</u>	
Due to Other Funds	\$ 57
Accounts Payable	<hr/> 18
	<hr/>
Total Liabilities	75
	<hr/>
<u>Fund Balance</u>	35,795
	<hr/>
Total Liabilities and Fund Balance	\$ 35,870
	<hr/> <hr/>

VILLAGE OF POSEN

REQUIRED SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCES

For the Fiscal Year Ended December 31, 2004

	<u>Special Revenue Fund</u>
	Local Street Fund
	<hr/>
<u>Revenues</u>	
State grants	\$ 8,224
Interest and rentals	<u>231</u>
Total Revenues	8,455
 <u>Expenditures</u>	
Public works	<u>4,108</u>
Total Expenditures	<u>4,108</u>
 Excess of Revenues Over Expenditures	4,347
 Other Financing Sources (Uses)	
Transfers from (to) other funds	<u>5,500</u>
 Net Changes in Fund Balance	9,847
 Fund Balance, beginning of year	<u>25,948</u>
 Fund Balance, end of year	<u><u>\$ 35,795</u></u>

VILLAGE OF POSEN

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND

BALANCE – BUDGET AND ACTUAL

For the Fiscal Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance
<u>Revenues</u>				
Taxes				
Current tax levy	\$ 14,000	\$ 14,000	\$ 15,093	\$ 1,093
Delinquent taxes and fees	<u>100</u>	<u>100</u>	<u>1,227</u>	<u>1,127</u>
Total Taxes	14,100	14,100	16,320	2,220
State Grants				
State revenue sharing	20,000	20,000	23,995	3,995
Metro Act	-	-	1,676	1,676
Liquor license	<u>700</u>	<u>700</u>	<u>717</u>	<u>17</u>
Total State Grants	20,700	20,700	26,388	5,688
Interest and Rentals				
Interest	600	600	576	(24)
Rents	<u>4,300</u>	<u>4,300</u>	<u>4,440</u>	<u>140</u>
Total Interest and Rentals	4,900	4,900	5,016	116
Other Revenues - Miscellaneous	<u>600</u>	<u>600</u>	<u>12,440</u>	<u>11,840</u>
Total Revenues	<u>40,300</u>	<u>40,300</u>	<u>60,164</u>	<u>19,864</u>

(Continued on next page)

VILLAGE OF POSEN

OTHER SUPPLEMENTAL INFORMATION

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE – BUDGET AND ACTUAL
For the Fiscal Year Ended December 31, 2004**

(Continued from previous page)

	Original Budget	Final Amended Budget	Actual	Variance
<u>Expenditures</u>				
Legislative				
Village Council				
Trustee salaries	\$ 6,500	\$ 6,500	\$ 6,100	\$ 400
Fringes and taxes	2,200	2,200	1,454	746
Legal and audit	7,500	10,400	6,914	3,486
Supplies and other	<u>150</u>	<u>150</u>	<u>59</u>	<u>91</u>
Total Legislative	16,350	19,250	14,527	4,723
General Government				
President				
Salary	<u>1,350</u>	<u>1,450</u>	<u>1,268</u>	<u>182</u>
Total President	1,350	1,450	1,268	182
Elections				
Wages	350	350	277	73
Supplies and other	800	800	775	25
Printing and publication	<u>100</u>	<u>135</u>	<u>132</u>	<u>3</u>
Total Elections	1,250	1,285	1,184	101
Clerk				
Salary	3,600	3,600	2,835	765
Supplies and other	<u>300</u>	<u>900</u>	<u>893</u>	<u>7</u>
Total Clerk	3,900	4,500	3,728	772

(Continued on next page)

VILLAGE OF POSEN

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL For the Fiscal Year Ended December 31, 2004

(Continued from previous page)

	Original Budget	Final Amended Budget	Actual	Variance
<u>Expenditures</u>				
Treasurer				
Salary	\$ 1,900	\$ 1,900	\$ 1,405	\$ 495
Supplies and other	<u>700</u>	<u>850</u>	<u>826</u>	<u>24</u>
Total Treasurer	2,600	2,750	2,231	519
 Village Hall				
Wages	2,300	5,800	5,359	441
Supplies	2,400	2,485	827	1,658
Office	1,400	1,565	543	1,022
Insurance	6,000	7,400	7,373	27
Utilities	3,200	3,305	2,454	851
Repairs and maintenance	18,500	18,500	11,026	7,474
Telephone	600	600	537	63
Other costs	<u>650</u>	<u>650</u>	<u>634</u>	<u>16</u>
Total Village Hall	<u>35,050</u>	<u>40,305</u>	<u>28,753</u>	<u>11,552</u>
 Total General Government	44,150	50,290	37,164	13,126
 Public Works				
Repairs and maintenance	8,400	8,400	187	8,213
Street lighting	<u>6,000</u>	<u>6,000</u>	<u>4,898</u>	<u>1,102</u>
Total Public Works	<u>14,400</u>	<u>14,400</u>	<u>5,085</u>	<u>9,315</u>
 Total Expenditures	<u>74,900</u>	<u>83,940</u>	<u>56,776</u>	<u>27,164</u>
 Excess of Revenues Over Expenditures	<u>(34,600)</u>	<u>(43,640)</u>	<u>3,388</u>	<u>47,028</u>
 Net Change in Fund Balance	(34,600)	(43,640)	3,388	47,028
 Fund Balance, beginning of year	<u>64,159</u>	<u>64,159</u>	<u>64,159</u>	<u>-</u>
 Fund Balance, end of year	<u>\$ 29,559</u>	<u>\$ 20,519</u>	<u>\$ 67,547</u>	<u>\$ 47,028</u>

August 25, 2005

Honorable President and
Village Council Members
Village of Posen
Presque Isle County, Michigan

I wish to express my appreciation for the fine cooperation extended to me during the audit of your Village's Financial Statements.

As required, I have submitted online to the State Treasurer's office a PDL formatted copy of the audited Financial Statements, which included this Letter of Comments and Recommendations as well as the Auditing Procedures Report. Ten copies of the audited Financial Statements are herewith submitted. At one of your next regular Village Board Meetings the audited Financial Statements should be formally accepted and the copy marked for this purpose made a part of your Minute Book. I will plan to attend that meeting and be prepared to make a brief presentation on the audit.

Prior to this audit I obtained written permission from Village officials to disclose immediately any findings of suspected fraud and/or embezzlement directly to the Deputy State Treasurer. During the course of the audit I noted no instances of suspected fraud and/or embezzlement.

The following comments and recommendations are submitted in the interest of improved accounting procedures, closer compliance with the various state and federal regulations and requirements.

Comments and Recommendations Pertaining to the 2004-05 Audit Only

1. Proper Expense Recognition

During the past accounting year it appears some expenses that appear to be for the Water Fund, account 101-172-703, were paid by the General Fund. This may be the result of improper classification of expenses by the payroll system, or an attempt to recognize a portion of the expenses as administrative General Fund expenses.

Recommendation

The Water Fund expenses need to be identified and properly recorded in the Water Fund. This includes pro-ratio of expenses such as insurance or other combined invoicing. Additionally, an attempt to identify administrative overhead

Village of Posen

Letter of Comments and Recommendations

(Continued)

incurred in the General Fund that relates to the Water Fund so that these charges be billed to the Water Fund.

The Water Fund should also look at its entitlement to charge the General Fund a fire hydrant rental, which provides public safety to the Village.

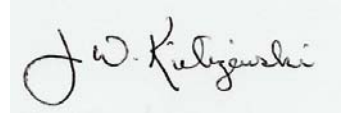
2. **Acceptance by Village Board of Audited Financial Statements**

It is recommended that these audited Financial Statements and Recommendations be accepted by the Village Board by a motion similar to the following:

“Moved by _____ and seconded by _____, that the Village 2004-05 audited Financial Statements be accepted as presented and that, insofar as possible, the recommendations made by our auditor in his Letter of Comments and Recommendations be followed.”

As stated, I will plan to attend one of your next regular Village Council Meetings. Please let me know of your preferred date as soon as possible.

Sincerely,

A handwritten signature in dark ink, appearing to read "J.W. Kieliszewski", is written over a light blue rectangular background.

J.W. Kieliszewski